

**TENNESSEE EDUCATION LOTTERY CORPORATION**  
**Funding Board Presentation**  
**April 29, 2008**

**UPDATED ESTIMATION OF**  
**TOTAL AND NET LOTTERY PROCEEDS**  
**FOR FISCAL YEARS ENDING**  
**JUNE 30, 2008 and 2009**

**TENNESSEE EDUCATION LOTTERY CORPORATION  
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS  
FOR FISCAL YEARS ENDING JUNE 30, 2008 and 2009  
(In Millions)**

**SUMMARY INFORMATION FOR FISCAL YEAR 2008:**

**As of March 31, 2008**

Gross Ticket Sales	\$ 802.5
Weekly Average	\$ 20.5
Total Proceeds	\$ 750.6
<b>Lottery for Education Proceeds</b>	<b>\$ 205.4</b>
% of Total Proceeds	27%
<b>After-School Program Proceeds</b>	<b>\$ 6.9</b>
<b>Total Lottery Proceeds</b>	<b>\$ 212.3</b>

**Projected for Fiscal Year Ending June 30, 2008**

	<b><u>December 2007</u></b>	<b><u>Current</u></b>
Gross Ticket Sales	\$1,101 - \$1,106	\$1,064 - \$1,072
Total Proceeds	\$1,030 - \$1,035	\$1,009 - \$1,016
<b>Lottery for Education Proceeds</b>	<b>\$ 278.2 - \$ 280.1</b>	<b>\$272.5 - \$274.5</b>
% of Total Proceeds	27 %	27 %
<b>After-School Programs Proceeds</b>	<b>\$ 12.5</b>	<b>\$ 13.0</b>
<b>Total Net Lottery Proceeds</b>	<b>\$ 290.7 - \$292.6</b>	<b>\$285.5 - \$287.5</b>

**SUMMARY INFORMATION FOR FISCAL YEAR 2009 (in Millions)**

	<b><u>Estimates</u></b>
Gross Ticket Sales	\$1,105 - \$1,115
Total Proceeds	\$1,032 - \$1,043
<b>Lottery for Education Proceeds</b>	<b>\$278.0 - \$281.0</b>
% of Total Proceeds	27 %
<b>After-School Programs Proceeds</b>	<b>\$ 12.5</b>
<b>Total Net Lottery Proceeds</b>	<b>\$290.5 - \$293.5</b>

## ADDITIONAL INFORMATION:

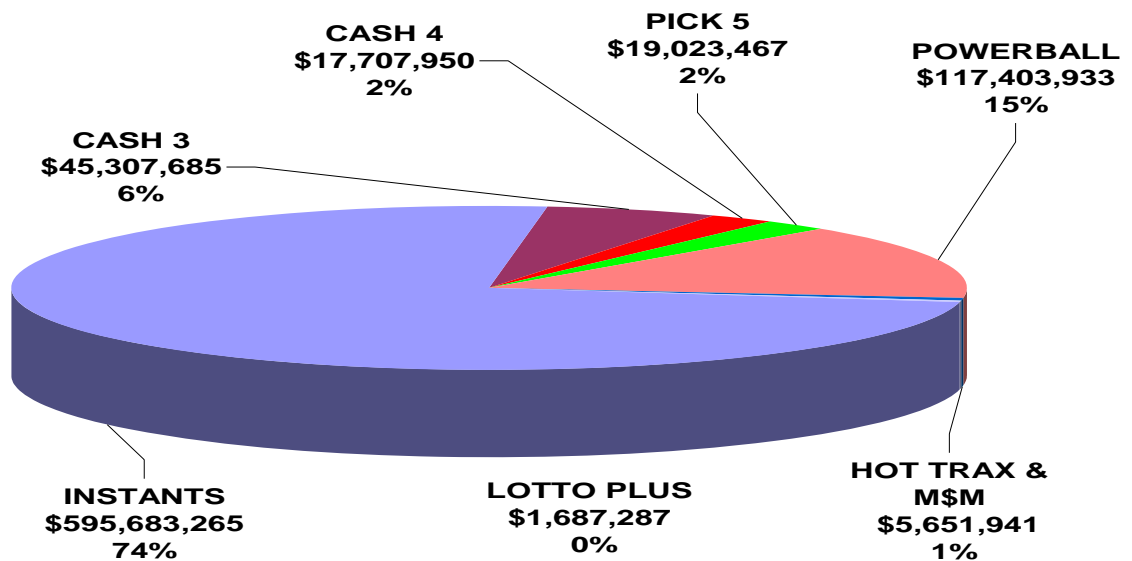
### Total Sales:

- **\$802.5 Million as of March 31, 2008**  
Weekly Average of \$20.5 Million
- **\$804.1 Million as of March 31, 2007**  
Weekly Average of \$20.3 Million

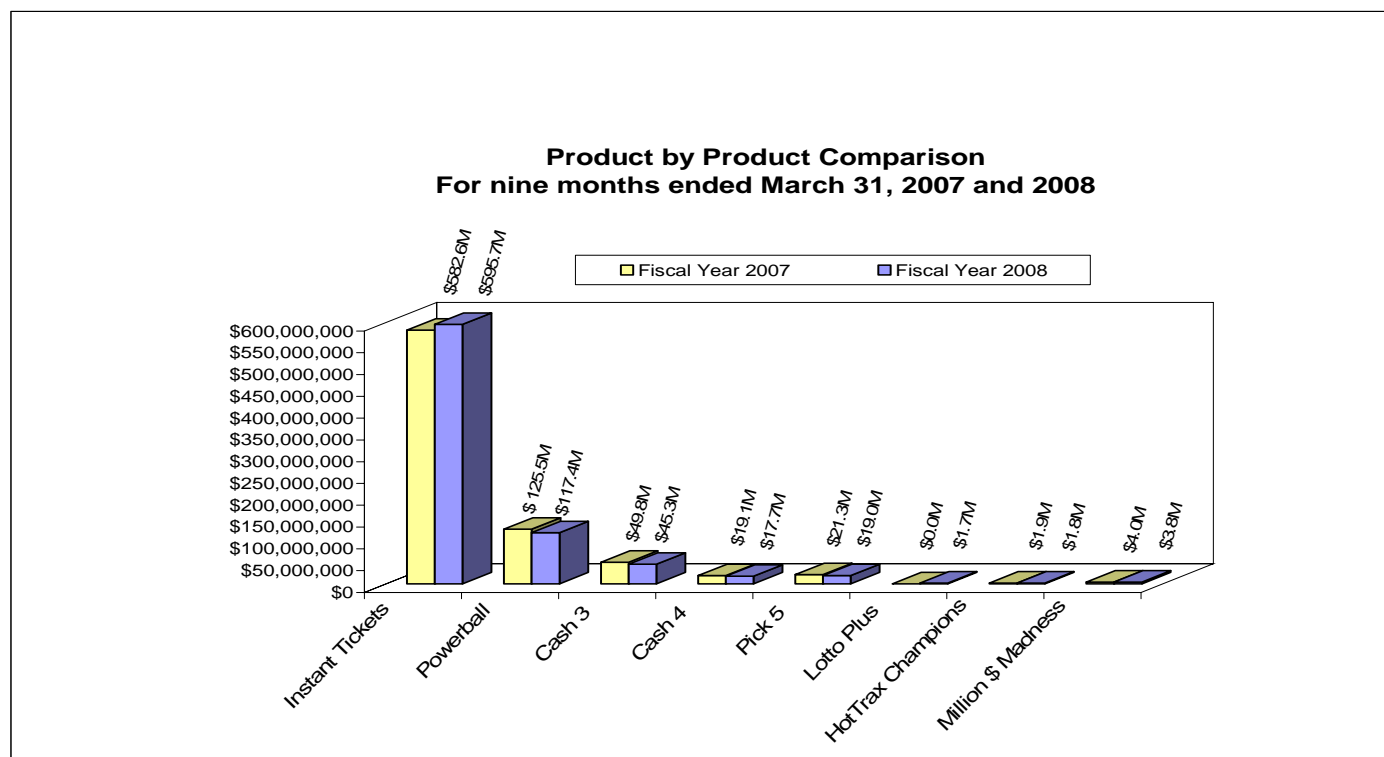
### Sales by Product as of March 31, 2008:

<u>Game</u>	<u>Sales</u>	<u>% of Total</u>
Instant Games	\$ 595.7 million	74 %
Powerball	\$ 117.4 million	15 %
CASH 3	\$ 45.3 million	6 %
CASH 4	\$ 17.7 million	2 %
Pick 5 & Lotto Plus	\$ 20.6 million	3 %
Hottrax & Million\$Madness	\$ 5.7 million	.6%

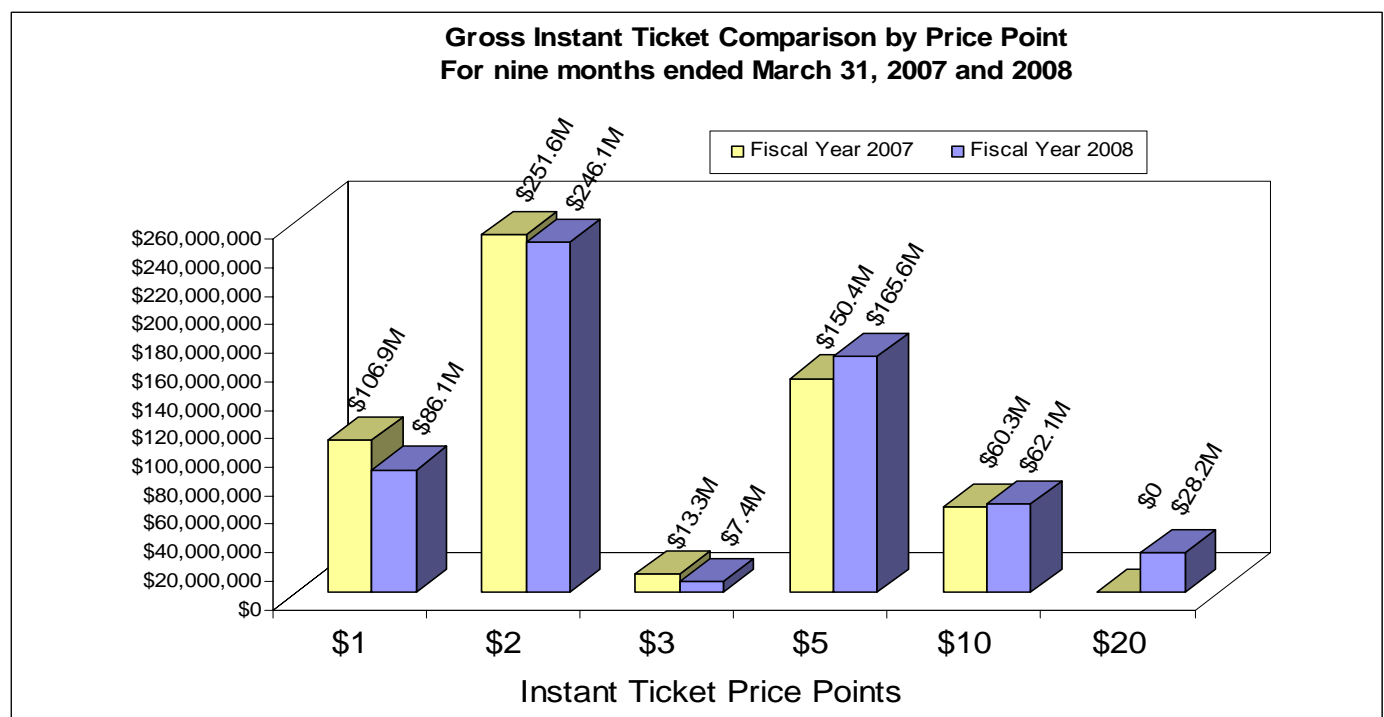
**TENNESSEE EDUCATION LOTTERY CORPORATION  
SALES BY PRODUCT  
FOR THE FISCAL YEAR TO DATE AS OF MARCH 31, 2008**



Product by Product Comparison FY08 to FY07 (First Nine Months)



Instant Games by Price Point



## Lottery for Education Proceeds

- \$205.4 million as of 3/31/08 27 % of Total Proceeds
- \$205.7 million as of 3/31/07 27 % of Total Proceeds

## After-School Program Proceeds

- Represents actual/realized unclaimed monies
- \$6.9 million as of 3/31/08
- \$9.6 million as of 3/31/07

**FISCAL YEAR 2008 ESTIMATES**

## Current Year

**\$ 1.064 - \$1.072 billion**

- |   |                              |
|---|------------------------------|
| ➤ Instant Games                                   | 74 % of Gross Sales Estimate |
| ➤ Powerball                                       | 15 % of Gross Sales Estimate |
| ➤ CASH3 and CASH4                                 | 6 % of Gross Sales Estimate  |
| ➤ Pick 5 and Lotto Plus                           | 3 % of Gross Sales Estimate  |
| ➤ Million Dollar Madness<br>and Hottrax Champions | .6 % of Gross Sales Estimate |

## Lottery for Education Proceeds

## Current Estimate

**\$ 272.5 - \$274.5 million**

- Represents 27 % of estimated total lottery proceeds
- Represents 1 % projected growth over the prior fiscal year

## After-School Program Proceeds

### Current Estimate

**\$13.0 million**

- Represents actual/realized unclaimed monies expected from closed instant games and expired online draw periods.
- Represents expected unclaimed monies for remaining fiscal year for 17 Instant Games closing May 29, 2008 and online draws expiring as of June 30, 2008.

## Significant Factors Impacting Estimates

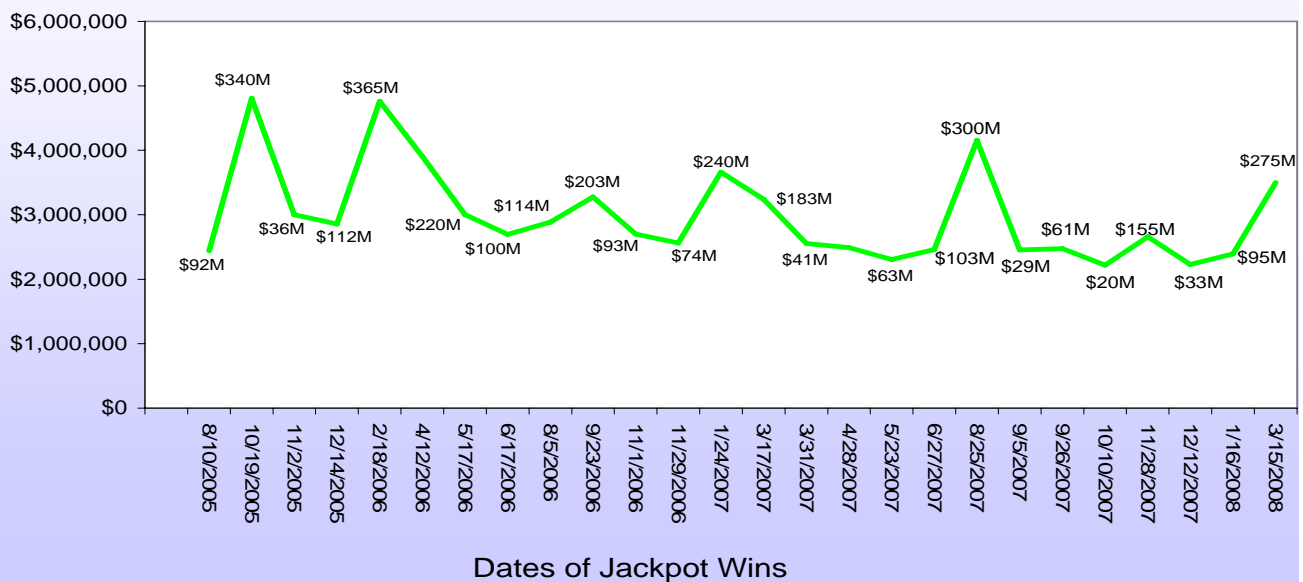
### Instant Games

- Sales as of March 31, 2008 averaged \$ 15.2 million a week. This represents growth of 2% over the first nine months of Fiscal Year 2007.
- Projected fiscal year increase will be attributable to higher price point games, such as \$20 “Sizzling Cash” (game launch February 2008) and \$10 “\$50 Million Spectacular” (game launch April 2008).
- Average Prize Payout of 65 % for new games remains consistent from Fiscal Year 2007.
- TEL’s *Play it Again* second chance program continues to extend the sale period for new Instant Tickets.

### Powerball

- Powerball sales are significantly impacted by the size of jackpots.
- Game design supports two (2) jackpots in \$150-200 million range and one (1) in \$250+ million range.
- Four highest jackpots in Fiscal Year 2008 and Fiscal Year 2007 averaged \$209 million and \$206 million, respectively. Sales are down by \$7.8 million, indicating possible jackpot fatigue.
- Projected Fiscal Year 2008 revenues are based on average weekly sales of \$ 3 million, which would include a jackpot in the range of \$150 - \$200 million range.

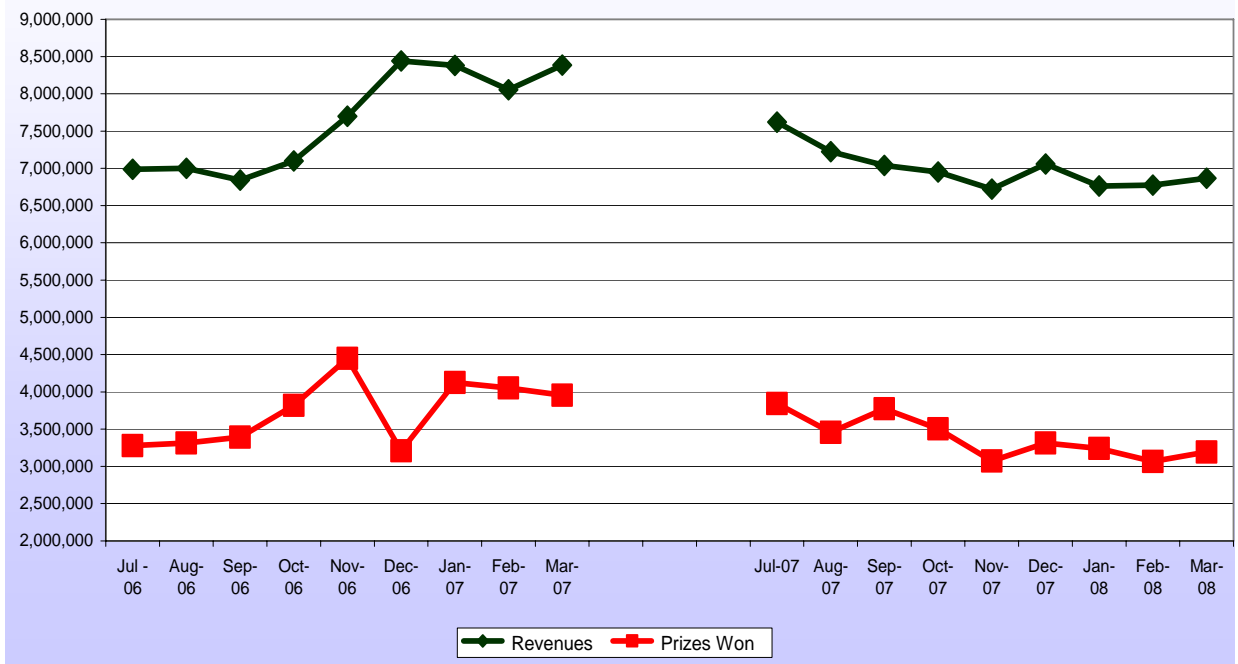
Tennessee Education Lottery  
Analysis of Powerball Jackpot Cycles and Average Weekly Revenues  
July 1, 2005 to March 31, 2008



## CASH3 and CASH4

- As of March 31, 2008, the gross contribution margin is slightly lower by 2% in FY08 compared to FY07 due to prize payouts also being lower compared to the prior year. Sales are lower by 8% compared to the same period in the prior year.
- Cash 3 and Cash 4 sales are impacted by prizes won by players. As indicated in the chart below, draw sales primarily trend in parallel to prizes won.
- Total sales for Fiscal Year 2008 are projected based upon current year weekly trends of \$ 1.55 million combined for CASH 3 and CASH 4.

**Tennessee Education Lottery**  
**Comparing Cash 3 and Cash 4 Revenues to Prizes Won**  
**July - March FY 2007 & FY 2008**

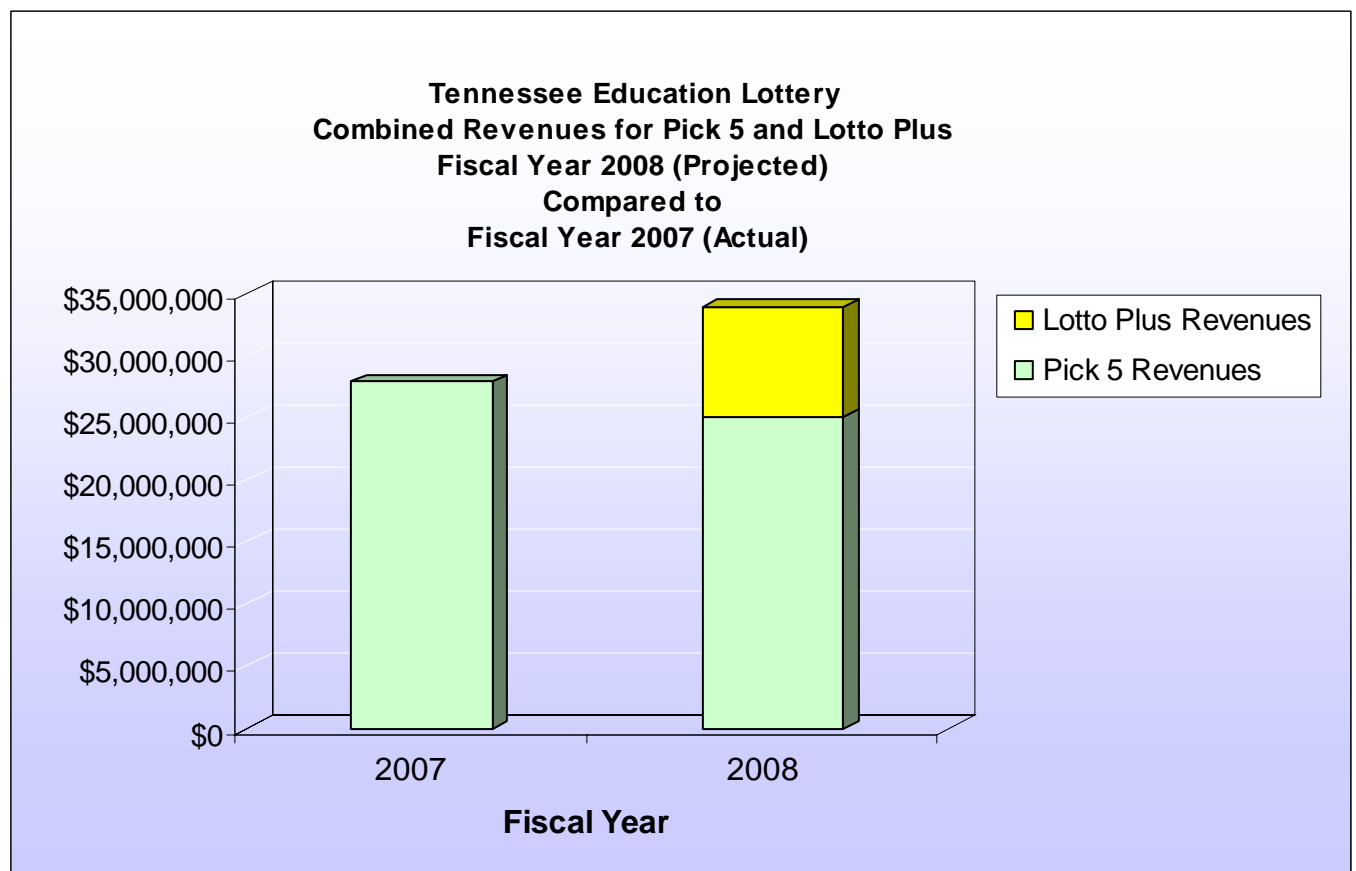


## Pick 5

- Pick 5 sales are impacted by the size of jackpots.
- TEL changed the game design in March 2008 to create more winners in the game.
- Pick 5 sales are trending approximately 10% lower when compared to the same jackpot level for Lotto5 in Fiscal Year 2007. This was expected with the launching of our LottoPlus in-state lotto game.
- We expect the Pick 5 and Lotto Plus combined sales to be 20% above Pick5 total sales in Fiscal Year 2007.

## LottoPlus

- Ticket sales began March 9, 2008.
- The game is a jackpot style game played only in Tennessee.
- Jackpots start at \$1 million and grow by a minimum of \$100,000 each time the jackpot rolls.
- March sales averaged \$513,000 per week. We expect these sales to trend higher as larger jackpots occur over the next three months.





## **HotTrax Champions**

- Limited retailer base with specific trade style (social spaces) continue to limit the sales growth for our HotTrax Champions monitor-based online game.

## **Direct Gaming-Related Expenses**

- Aggregate Prize Expense for Instant Games is estimated at **65.0%**.
- Aggregate Prize Expense for Online Games is estimated at **50.5%**.
- Retailer sales base commissions are **6.5%** of gross sales. Effective commission rate is 7% of Total Lottery Proceeds due to cashing bonuses available to retailers.
- Gaming vendors' fees are based on a percentage of sales per terms of each contract. The combined percentages are approximately 2.3% for instant tickets and 1.2% for online games.

## **Non-Direct Expenses**

- Advertising is estimated at \$12.1 million, or 1.2% of gross sales.
- Other Gaming estimated at \$4.8 million, or 0.5% of gross sales.
- General and Administrative is estimated at \$15.1 million, or 1.5% of gross sales.

## **FISCAL YEAR 2009 ESTIMATES**

### **FY 09 Estimates**

- Gross Sales growth of 4 % based on continued growth in our instant products, potential growth opportunity in Powerball from possible game enhancements, and incremental growth from combined LottoPlus and Pick5 sales.
- Lottery for Education proceeds growth of 2% is projected based on expected sales growth.
- After School Proceeds are based upon historical experience for Tennessee. The prior periods' average unclaimed experience represents 2 % of available prizes.